

Unit-1 Meaning & Types of Markets

1) Free Goods :- Goods which are free / zero price goods.
 Ex: Air, Sunlight, etc.
 Abundant in Supply
 - No Scarcity.

2) Economic Goods :-

- 1) Scarce in relation to their demand.
- 2) They have an opportunity cost.
- 3) Exchangeable in the market & commands a price.

3) Price :-

- a) Qty of money necessary to acquire goods or services.
- b) purchasing power of an article, expressed in terms of money.

4) Value in Use & value in exchange :-

→ Value in Use :-

It refers to the utility or usefulness that a product provides to a customer.

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Sentimental
value

→ Value in exchange :-

- "Amt of goods & services which we may obtain in the market in exchange of a particular thing"
- ↓
Currency
- Amount someone is willing to give up in other goods & services in order to obtain goods or services.

→ In Economics, we are concerned with Exchange value.

* What is Market?

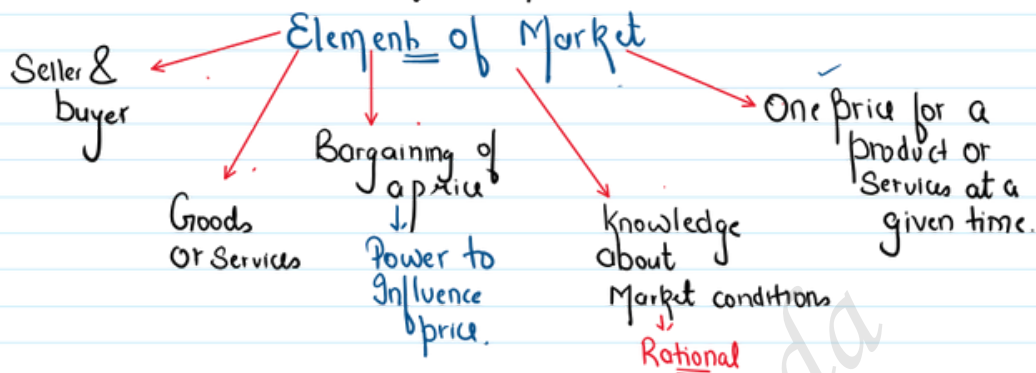
- collection of buyer & seller, with the potential to trade.
- Market need not to be formed or held in a particular place.

→ The actual or potential interaction of buyers & sellers

↓
Online Shopping.

→ The actual or potential interaction of buyers & sellers determine the price of goods or services.

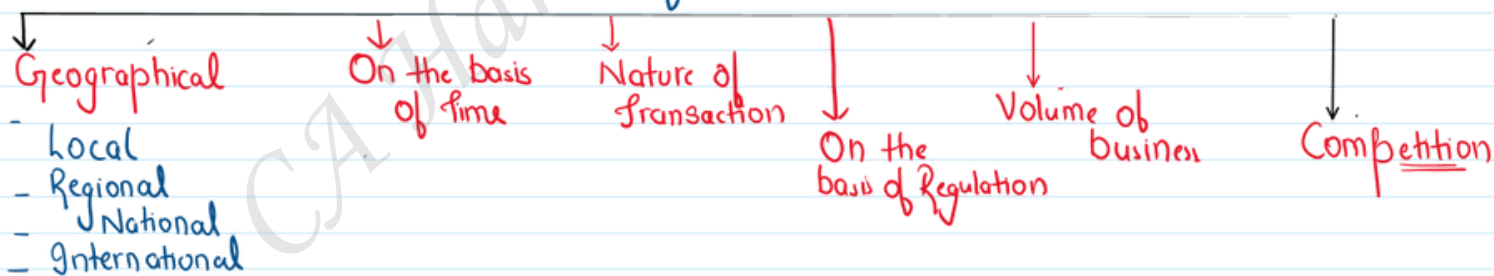
→ Market can be defined as all the buyers & sellers of goods or services who influence prices.



* Classification of Market



Classification



i] Geographical Area:

(i) Local Markets:-

- a] buyers & sellers are limited to local area.
- b] Highly perishable goods & bulky articles.
 - Extent of market is limited to particular locality.
 - Ex: Hair dresser.

(ii) Regional Market: a) Covers a wider area such as adjacent cities, part of states, etc.

- (ii) Regional Market: a) Covers a wider area such as adjacent cities, part of states, etc.
 b) Nature of buyers may vary in their demand characteristics.

- (iii) National Market: a) Demand for a commodity or service is limited to the national boundaries of a country.
 → Trade policy of the govt may restrict the trading of the commodity to within the country.

- (iv) International Market - a) Goods are exchanged internationally.
 → High value & small bulk commodities -
 Ex- Gold | Silver.

2) On the basis of time :- Alfred Marshall

1. Very Short period Market: a) Supply is fixed & cannot be increased/decreased.
 Ex- perishable goods, like vegetables.
 b) very short period price is dependent on demand.
 ↑ Demand - Price ↑

- 2) Short period Market :- a) Slightly longer than very short period.
 b) Supply of output may be increased by increasing variable factor.
 c) Changes in short period price on account of changes in demand is less, as compared to market period.

- 3) Long period Market: All factors are variable
 ↳ Supply can be changed by changing scale of production.
 → Interaction b/w long run supply & demand determines long run eq. price.
 ↳ Normal price.

4) Very Long period Market: Secular movements are recorded in certain factors over a period of time.
 ↳ Secular period (highlighted)
 ↳ Size of population (highlighted)

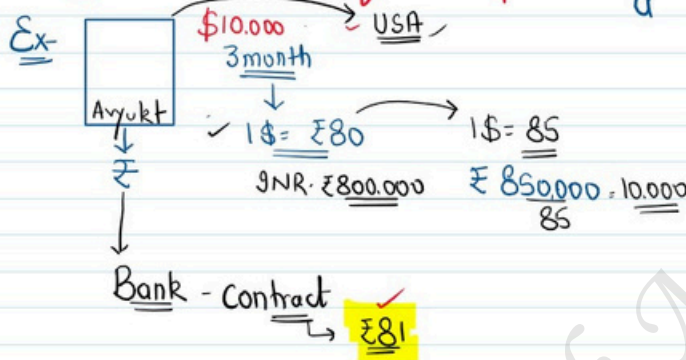
3) On the basis of Nature of Transaction.

a) Spot/Cash Market: a) Goods are exchanged either immediately or within short span of time

Ex- Grains, sold in the Mandi at the current Market

b) Forward or future Market: Transactions involve contract with a promise to pay & deliver goods at some future date.

Ex- foreign currency contract.



4) On the basis of Regulation

a) Regulated Market - Transactions are statutorily regulated.
 ↳ Stock Market → SEBI
 ↳ To avoid unfair practices.

b) Unregulated Market - Free Market
 - No stipulations on transactions

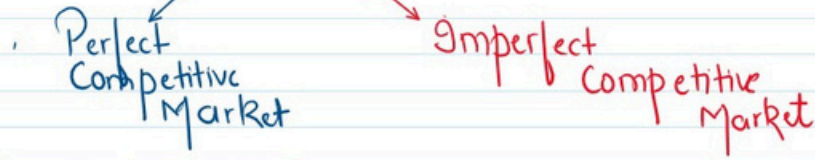
5) On the basis of Volume of business:-

a) Wholesale Market - a) Commodities are bought & sold in bulk or large quantities.
 → B2B

b) Retail Market - a) Sold in small quantities.
 b) Market for ultimate consumer
 ↳ B2C.

6) On the basis of competition:

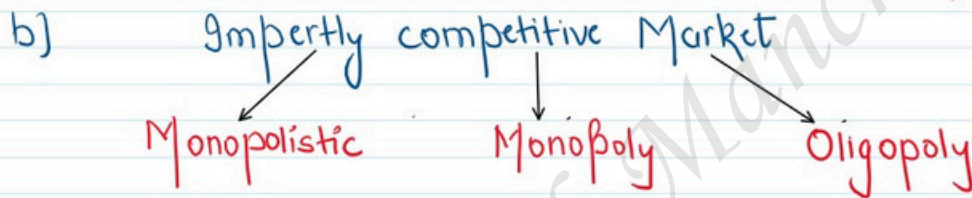
6) On the basis of competition:



a) Perfect Competitive Market

Vegetable Market

- (i) Very Large no. of Sellers
- (ii) Identical product
No product differentiation
- (iii) Sellers have no control over price
↳ No bargaining power
→ Price is decided by Market Demand & supply.
- (iv) Price elasticity - Infinite
↳ Perfect sub goods



- (i) Monopolistic:
- (i) Product Differentiation
↳ Products are similar but not identical
 - (ii) Large no. of sellers
 - (iii) Sellers have Some control over price
↳ because of differentiation.
 - (iv) Price elasticity - Large - elastic.
↳ Goods are close sub.

- (ii) Monopoly :-
- (i) Single Seller (Railways - IRCTC)
 - (ii) Product is extremely differentiated
 - (iii) Very ^{high} considerable degree of control over price.
 - (iv) Price elasticity - Small, inelastic.

- (iii) Oligopoly :-
- (i) Few large sellers
↳ having significant market share.
 - (ii) Product differentiation: None to substantial

U · U

→ having significant market share.

(ii) Product differentiation: None to Substantial

↓ Telecommunication ↓ Automobile

(iii) Some degree of control over price.

Imp → (iv) Price elasticity: Small - Product diff.
 ↓ Interdependent

Table 1 - Distinguishing Features of Major Types of Markets

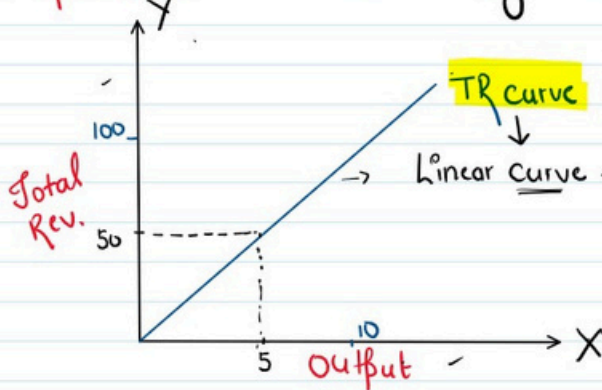
Assumption	Market Types			
	Perfect Competition	Monopolistic Competition	Oligopoly	Monopoly
Number of sellers ✓	Very large	Large	Small numbers	One
Product differentiation	None	Slight	None to substantial	Extreme
Price elasticity of demand of a firm	Infinite	Large	Small	Small
Degree of control over price	None	Some	Some	Very considerable

x — x

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→ Total Revenue, Average Rev. & Marg. Rev.

1. Total Revenue = Price x Qty Sold

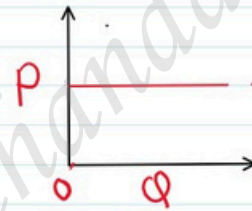


⇒ TR curve of a competitive firm having perfectly elastic demand curve ✓

Example

P	Q	TR
10	5	50
10	10	100

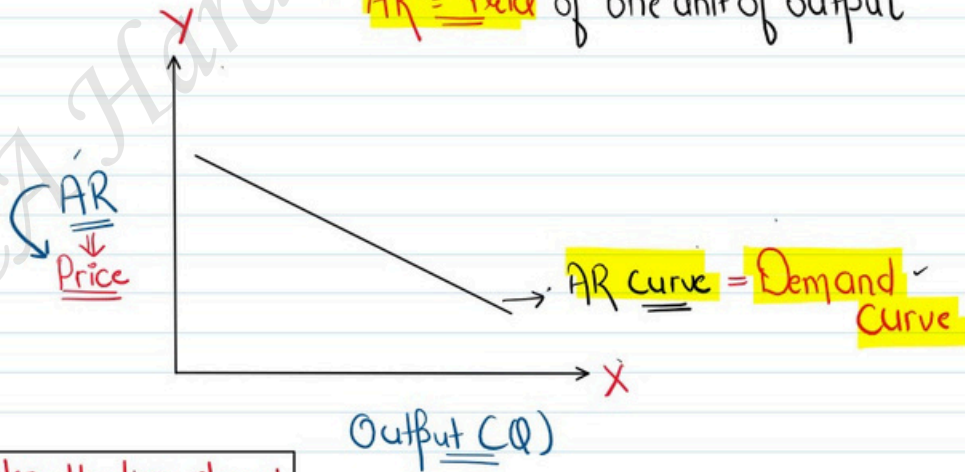
↓2x ↓2x



2. Average Revenue Revenue per unit of output

$$AR = \frac{TR}{Q} \Rightarrow \frac{P \times Q}{Q} = \text{Price}$$

AR = Price of one unit of output



AR curve is also the firm's demand curve.

3. Marginal Revenue:-

↳ Change in TR resulting from sale of an add. unit of output.

Output	TR
10	1000
11	1100

1100 - 1000

1) Output TR v i

10 1000 } $MR = 100$

11 1100 } $TR_n - TR_{n-1}$

2) $\frac{5}{15}$ 1000 } $MR = 80$

1400 } $= \frac{\Delta TR}{\Delta Q} = \frac{400}{5} = 80$

$AR > MR$

Table 2: Total Revenue, Average Revenue and Marginal Revenue

Units	Total Revenue (P×Q)	Average Revenue	Marginal Revenue
1	10	10	10
2	18	9	8
3	24	8	6
4	28	7	4
5	30	6	2
6	30	5	0
7	28	4	-2
8	24	3	-4
9	18	2	-6
10	10	1	-8

Imperfect competitive firm

- 1) TR is Max. at unit 6, when $MR = 0$
- 2) AR keeps on falling, showing inverse relationship b/w price & qty. demanded.
- 3) MR keeps on falling & after becoming zero, it becomes negative.

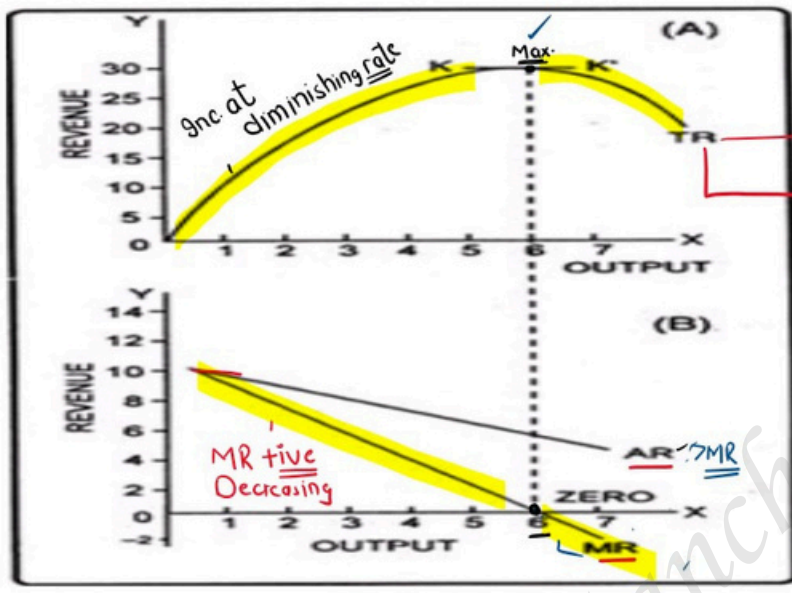
$$TR = \sum MR$$

* Why MR due to 3rd unit [€6], is not equal to price of the commodity [€8]

↳ When price is reduced to €8 for selling an additional unit, the 2 unit which could be sold for €9 before, will have to be sold at €8 per unit, resulting in loss of €2.

→ For any falling AR, MR is always less than the price.

→ For any falling AR, MR is always less than the price.



Imperfect Competitive Market
Slope $\frac{\Delta TR}{\Delta Q} = MR$

- MR curve lies below AR curve showing that MR declines more rapidly.
- TR increases as long as MR is positive & declines when MR is negative.
- TR initially increases at a diminishing rate due to diminishing MR & reaches maximum when MR is zero and then falls.

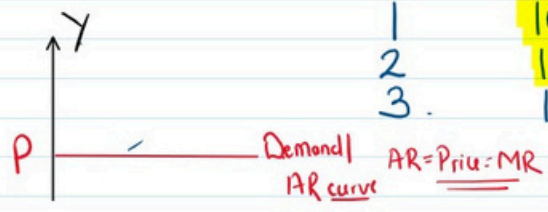
* Perfect Competition

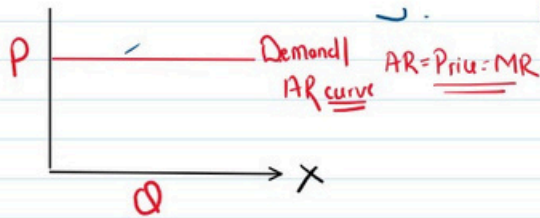
- Firms are price taker
- AR or demand curve is perfectly elastic.
↓
Constant Price / AR

$MR = AR$

Example:

Unit	Price AR	TR	MR
1	10	10	10
2	10	20	10
3	10	30	10





* Relationship b/w AR, MR, & price elasticity of demand.

$$\underline{MR} = \underline{AR} \times \frac{e-1}{e} \quad [\text{Ignore negative sign}]$$

1. $e = 1$

$$MR = AR \times \left[\frac{1-1}{1} \right]$$

$$MR = 0 \rightarrow \text{TR maximum}$$

2. $e > 1$

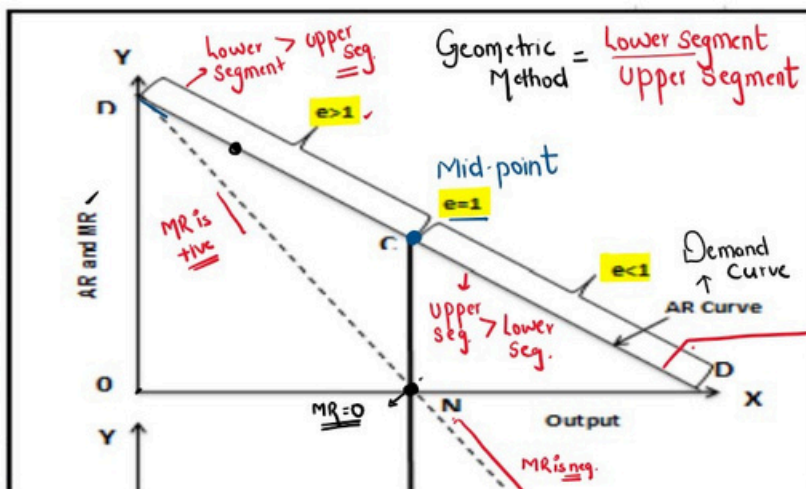
$$MR = AR \times \left[\frac{1.5-1}{1.5} \right]$$

$$MR = \text{+ive} \rightarrow \text{TR will increase}$$

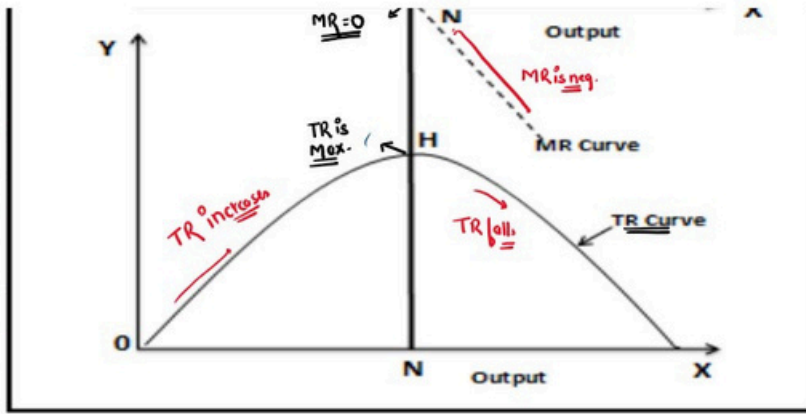
3. $e < 1$

$$MR = AR \times \left[\frac{0.2-1}{0.2} \right]$$

$$MR = \text{-ive} \rightarrow \text{TR will fall.}$$



[Linear] Straight line falling demand curve



x — x

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- Behavioural Principles

1) Firm should not produce at all if its TVC are not met.

Ex- 1) Avyukt - Rent - £24000
 \rightarrow Fixed cost \rightarrow Sunk cost

Output - 1000 units	} ATC = 49
TVC - 25000	
TR = 50,000	

AFC = 24	} ATC = 49
AVC = 25	
AR = 50	

$\rightarrow AR > ATC$

\Rightarrow If shutdown = £24000 Loss
 If continue = TR = 50,000 -
 C.TC = 49,000 -
 Profit 1000 -
 \rightarrow Positive economic profit -
 Super Normal profit -
 Continue production

2) Output = 1000
 TVC = 25000
 TR = 49000

AFC = 24	} TC = 49
AVC = 25	
AR = 49	

\rightarrow $TR > TVC$ - Continue $AR > AVC$ - Continue

Shutdown = 24000 fixed cost
 Continue = TR = TC
 49000 = 49000

\rightarrow Normal profit
 Zero Economic Profit

3) TR = 40,000 -
 TVC = 25,000 -
 TC = 49,000

AR = 40
AVC = 25, AFC = 24
ATC = 49

\Rightarrow $TR > TVC$
 40,000 > 25,000

$AR > AVC$
40 > 25

TR < TC	AR < ATC
40,000 < 49,000	40 < 49

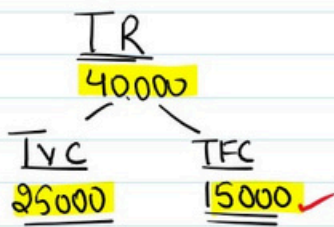
$$TR < TC$$

$$40,000 < 49,000$$

$$AR < ATC$$

$$40 < 49$$

$$\begin{aligned} \text{Shutdown} &= 24,000 \text{ Loss} \\ \text{Continue} &= \underline{\underline{29,000 \text{ Loss}}} \quad \checkmark \end{aligned}$$



$$4) \quad \begin{array}{l} TR = 20,000 \\ TVC = 25,000 \\ TFC = 24,000 \end{array} \quad \left| \quad \begin{array}{l} AR = 20 \\ AVC = 25 \\ AFC = 24 \end{array}$$

$$TR < TVC$$

$$20,000 < 25,000$$

$$AR < \underline{\underline{AVC}}$$

Shutdown -

$$TR - TC$$

$$20,000 - 49,000 = (29,000) \text{ Loss}$$

$$5) \quad \begin{array}{l} TR = 25,000 \\ TVC = 25,000 \\ TFC = 24,000 \end{array} \quad \left| \quad \begin{array}{l} AR = 25 \\ AVC = 25 \\ AFC = 24 \end{array}$$

$$\underline{\underline{TR}} = \underline{\underline{TVC}}$$

$$AR = AVC$$

Shutdown

1. If firm's TR are not enough to make good even the TVC, it is better for the firm to Shut down.

Price | AR is below AVC
AR < AVC

⇒ In this case, Loss = Fixed cost

⇒ Sunk FC is irrelevant to the shut down decisions.

2. If Price | AR > AVC, but less than ATC

$$ATC > AR > AVC$$

→ firm cover its variable cost & some part of FC.

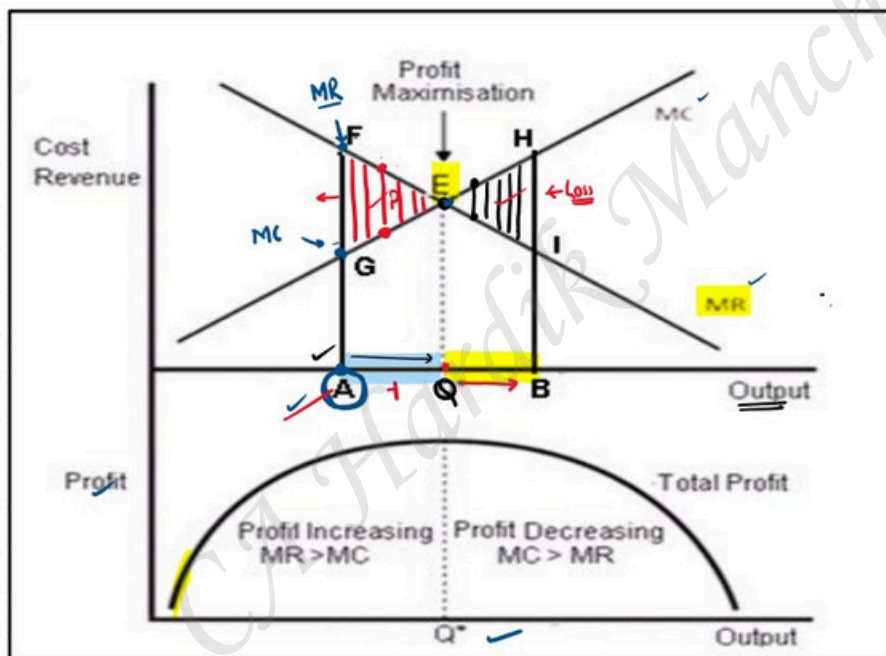
$HIC > HK > HVC$
 → firm cover its variable cost & some part of FC.

3. $Price/AR = ATC$
 firm covers both FC & VC
 - Normal profit
 - Zero economic profit

4. $Price/AR > ATC$
 - Positive eco. profit
 Super Normal profit

2] Max profit

$$MR = MC$$



1. If $MR > MC$, produce add. units

2. $MR = MC$, Max profit

a. for all levels of output less than Q , add. units of output add more to revenue than to cost

↳ $MR > MC$
 Profitable to produce more.

b. If stops at A, firm will be foregoing profit equal to EFG.

b. If stops at A, firm will be foregoing profit equal to EFG.

c. Profits will fall, if greater output than Q is produced.

x — Unit over — x'

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Multiple Choice Questions

14) Suppose a firm is producing a level of output such that $MR > MC$, what should be firm do to maximize its profits?

- (a) The firm should do nothing. (b) The firm should hire less labour.
(c) The firm should increase price. ~~(d)~~ The firm should increase output.

15) Suppose that a sole proprietorship is earning total revenues of ₹ 1,00,000 and is incurring explicit costs of ₹ 75,000. If the owner could work for another company for ₹ 30,000 a year, we would conclude that :

- ~~(a)~~ The firm is incurring an economic loss.
(b) Implicit costs are ₹ ~~25,000~~ 30,000
(c) The total economic costs are ₹ 1,00,000. 1,05,000
(d) The individual is earning an economic profit of ₹ 25,000. ×
- Handwritten notes:
TR = 1 Lac
Exp cost = 75,000
Accl. outlay
25,000 = A/c profit
c = 30,000
5000 = Eco. Loss

Multiple Choice Questions

16) Which is the first order condition for the profit of a firm to be maximum?

- (a) $AC = MR$ ~~(b)~~ $MC = MR$
(c) $MR = AR$ (d) $AC = AR$

17) Suppose that a sole proprietorship is earning total revenues of ₹ 1,00,000 and is incurring explicit costs of ₹ 75,000. If the owner could work for another company for ₹ 30,000 a year, we would conclude that :

- (a) The firm is incurring an economic loss.
(b) Implicit costs are ₹ 25,000.
(c) The total economic costs are ₹ 1,00,000.
(d) The individual is earning an economic profit of ₹ 25,000.

Multiple Choice Questions

18) Suppose that the demand curve for the XYZ Co. slopes downward and to the right. We can conclude that

- (a) the firm operates in a perfectly competitive market. ~~x~~
- (b) the firm can sell all that it wants to at the established market price.
- (c) the XYZ Co. is not a price-taker in the market because it must lower price to sell additional units of output.
 → Perfect Competitive
- ~~(d)~~ the XYZ Co. will not be able to maximise profits because price and revenue are subject to change.
 ↓ MR = MC



Multiple Choice Questions

19) A market structure in which many firms sell products that are similar but not identical is known as

- (a) monopolistic competition
- (b) monopoly
- (c) perfect competition
- (d) oligopoly

20) In a very short period market: *Market period*

- (a) the supply is fixed
- (b) the demand is fixed
- (c) demand and supply are fixed
- (d) none of the above

Multiple Choice Questions

21) Stock exchange market is an example of

- | | |
|------------------------|---------------------------------|
| (a) unregulated market | (b) regulated market |
| (c) spot market | (d) none of the above |

22) The market for the ultimate consumers is known as

- | | |
|------------------------|------------------------------|
| (a) whole sale market | (b) regulated market |
| (c) unregulated market | (d) retail market |

Multiple Choice Questions

$AC > AR$, $AR > AC$ Profit

23) If the average cost is higher than the average revenue then the firm incurs _____

- | | |
|---------------------|----------------------------|
| (a) Normal profit | (b) <u>Abnormal profit</u> |
| (c) Loss | (d) No profit, no loss |

~~24)~~ The market for the ultimate consumers is known as

- | | |
|------------------------|----------------------|
| (a) whole sale market | (b) regulated market |
| (c) unregulated market | (d) retail market |

$AR = AC$. Normal profits

Multiple Choice Questions

25) Women primarily wear Traditional Assamese Saree in Assam & adjoining areas, is an example of:

- a) National Market
- b) Regional Market
- c) Local Market
- d) International Market

26) Markets where goods are exchanged for money payable either immediately or within a short span of time:

- a) Forward Market
- b) Spot Market
- c) Both (a) and (b)
- d) Neither (a) nor (b)

Multiple Choice Questions

27) When $AR = Rs. 12$ & $AC = Rs. 10$, the firm makes:

- a) Normal Profit
- b) Loss
- c) Super Normal profit
- d) None of the above

$$AR > AC$$

28) Marginal Revenue will be zero if the elasticity of demand is:

- a) Equal to zero
- b) Equal to 1
- c) Greater than 1
- d) Less than 1

$$MR = AR \left(\frac{1}{e} \right)$$

Multiple Choice Questions

29) On the basis of nature of transaction, the market is classified into:

- a) Regulated & Unregulated Market
- b) Wholesale & Retail Market
- c) Spot & Future Market
- d) None of these

30) If the price elasticity of demand of a product is -3, what should be the price of the product for its MR to be Rs. 20?

- a) Rs. 10 per unit
- b) Rs. 20 per unit
- c) Rs. 30 per unit
- d) Rs. 40 per unit

$$MR = AR \times \left[\frac{e-1}{e} \right]$$

$$20 = AR \times \left[\frac{-3-1}{-3} \right] \quad \frac{20 \times 3}{2}$$

Multiple Choice Questions

31) Assume that when price is Rs. 100 per unit, the quantity demanded is 900 units. When price falls to Rs. 90

- a) Regulated & Unregulated Market
- b) Wholesale & Retail Market
- c) Spot & Future Market
- d) None of these

32) At shut down point:

- a) Price is equal to AVC
- b) Total Revenue is equal to TVC
- c) Total loss of the firm is equal to TFC
- d) All of the above

$$\begin{array}{ccc} \text{TR} & & \text{TVC} \\ \uparrow & & \uparrow \\ \text{Price} & \text{AR} = & \text{AVC} \\ \text{Shut down} & & \text{Continue} \\ \text{loss-FC} & & \text{FC} \end{array}$$

Multiple Choice Questions

Total
Average

$ATC = AR$ Normal profit

33) A firm encounters its "shutdown point" when:

- a) Average total cost equals price at the profit-maximizing level of output.
- b) Average variable cost equals price at the profit-maximizing level of output.
- c) Average fixed cost equals price at the profit-maximizing level of output.
- d) Marginal cost equals price at the profit-maximizing level of output.

34) Suppose that at the profit maximizing level of output, a firm finds that market price is less than average total cost, but greater than average variable cost. Which of the following statements is correct?

- a) The firm should shutdown in order to minimize its losses
 - b) The firm should raise its price enough to cover its losses.
 - c) The firm should move its resources to another industry
 - d) The firm should continue to operate in the short run in order to minimize its losses.
- $AR > AVC$
Shut down x

Multiple Choice Questions

$AR < ATC$ FC

35) "I am making a loss, but with the rent I have to pay, I can't afford to shut down at this point of time." If this entrepreneur is attempting to maximize profits or minimize losses, his behaviour in the short run is:

- a) Rational, if the firm is covering its variable cost $AR > AVC$
- b) Rational, if the firm is covering its fixed cost
- c) Irrational, since plant closing is necessary to eliminate losses x
- d) Irrational, since fixed costs are eliminated if a firm shuts down. Sunk cost

36) It will be profitable for a firm to expand output till which of the following condition?

- a) Marginal revenue is greater than marginal cost
- b) Marginal revenue is less than marginal cost
- c) Marginal cost is greater than marginal cost Revenue
- d) Marginal revenue is equal to marginal cost

x == x

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Multiple Choice Questions

TR
180
190 } 10

1) Assume that when price is ₹ 20, the quantity demanded is 9 units, and when price is ₹ 19, the quantity demanded is 10 units. Based on this information, what is the marginal revenue resulting from an increase in output from 9 units to 10 units.

- (a) ₹ 20 (b) ₹ 19
~~(c) ₹ 10~~ (d) ₹ 1

2) Marginal Revenue is equal to: $\frac{\Delta TR}{\Delta Q}$

- (a) The change in price divided by the change in output.
 (b) The change in quantity divided by the change in price. $\frac{\Delta Q}{\Delta P}$
~~(c) The change in $P \times Q$ due to a one unit change in output.~~
 (d) Price, but only if the firm is a price searcher.

Multiple Choice Questions

$\begin{matrix} \uparrow \\ \rightarrow \\ \downarrow \end{matrix}$

3) What is the shape of the demand curve faced by a firm under perfect competition?

- ~~(a)~~ Horizontal (b) Vertical
 (c) Positively sloped (d) Negatively sloped

4) Which of the following is not a characteristic of a "price-taker"? *Perfect Comp.*

- (a) $TR = P \times Q$ ✓ (b) $AR = Price$ ✓
~~(c) Negatively - sloped demand curve~~ (d) $Marginal Revenue = Price$

Multiple Choice Questions

5) For market, the essential condition is:

- a) A particular geographical place
- b) Control of the government
- c) Close contact between buyers and sellers
- d) None of these

6) In Economics, we are concerned with:

- a) Value in use only
- b) Exchange value only
- c) Both value in use and exchange value
- d) None of the above

Multiple Choice Questions

7) In a very ^{Market period} short period market:

- a) The supply is fixed
- b) The demand is fixed
- c) Demand and supply are fixed
- d) None of these

8) Generally, perishable goods like butter, eggs, vegetables, etc. will have

- a) Regional market
- b) Local market
- c) National market
- d) None of the above

Multiple Choice Questions

*
9) Secular period is also known as:

- a) Very short period
- b) Short period
- c) Very long period
- d) Long period

10) Example of a commodity said to have an international market:

- a) Perishable goods
- b) High value and small bulk commodities - Gold & Silver
- c) Product whose trading is restricted by government
- d) Bulky articles

Multiple Choice Questions

11) Average revenue curve is also known as:

- a) Profit curve
- b) Demand curve
- c) Average cost curve
- d) Indifference curve

12) When $e > 1$, then MR is:

- a) Zero
- b) Negative
- c) Positive
- d) One

Multiple Choice Questions

13) If the price of a product is Rs. 20 per unit and its price elasticity of demand is 0.25. Its MR will be:

- a) 60
- b) 100
- c) -60
- d) None of these

$$20 \times \frac{-0.75}{0.25}$$

x — x

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